

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: September 12, 2002

To: Supervisor Lynne D. De Bruin, Chairman, Finance and Audit Committee

From: Jerome J. Heer, Director of Audits

Subject: Follow-up Audit of Purchasing Card Controls/March 2002 (File No. 02-185)

At the March 14, 2002, meeting of the Committee on Finance and Audit, the above report was received and placed on file with the understanding that a general follow-up status report, regarding implementation of the report's eleven recommendations, would be submitted in the September meeting cycle. Attached is our standard 'status of implementing recommendations' report. It includes Procurement Division's latest implementation status comments along with Department of Audit commentary.

As part of our six-month status report, we also informed the Committee we would do a limited follow-up test of purchasing card transactions from County departments cited in our March report to determine if compliance with purchasing card policies and procedures had improved. In this regard, we reviewed a limited sample of 40 purchasing card transactions (subsequent to our March report) totaling \$17,167 from May and June of 2002 from six County departments/divisions.

Of the current 40 purchase card transactions reviewed for compliance with purchasing card policies and procedures, 21 (52%) did not comply with card policies. These violations are a continuation of problems cited in previous reports. For example:

- Twelve transactions (30%) of our sample involved chaining to circumvent the \$1,000 transaction limit. Chaining is the term used to describe an occurrence where a purchase is divided into two or more smaller dollar purchases to circumvent the purchasing card's single transaction limit of \$1,000. While violations of policies are never acceptable, an increase in the card's limit to \$2,000 is being requested as part of Procurement Division's 2003 budget. Use of the purchasing card for procuring professional services is already at a \$2,000 limit. All but one of the chaining incidents was under \$2,000.
- Two transactions (5%) violated the personal purchase policy. Further review of the available documentation showed the cardholders reimbursed the County. However, no verbal or written documentation by the department addressing the misuse was provided. According to card policies, all warnings must be documented. Any unauthorized use of the card after a documented warning results in automatic removal of card privileges.
- Three transactions (7.5%) involved the use of the purchasing card to pay for registration fees, training or seminars which is prohibited under card use policies.
- No transactions documented use of a Disadvantaged Business Enterprise (DBE) firm. The one business listed as a DBE firm was not a certified DBE vendor.

Violations of card policies are categorized by associated County department/division in the following table.

Table Violations of Purchasing Card Policies As of May and June 2002						
	<u>Chaining Purchases</u>	<u>No Supervisor Approval</u>	<u>No Supporting Receipt</u>	<u>Personal Purchases</u>	<u>Sales Tax Paid</u>	<u>Training Education Card Use</u>
Parks	3	0	1	1	1	1
Public Works:						
Administration	0	0	0	0	0	0
Airport	0	0	0	0	0	0
Fleet	4	0	0	0	0	0
Sheriff	0	1	1	0	0	2
Zoo	<u>5</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>
	12	1	2	2	1	3
Source: Department of Audit Review						

The above findings are a continuing indication that meaningful supervisory reviews and/or enforcement of card policies are not taking place by departments. As mentioned in previous reports, the purchasing card program's decentralized control system will only be as strong as departments' efforts in monitoring and reviewing cardholder transactions.

This report will be forwarded to the County departments involved. We recommend this status report be received and placed on file with the understanding that the Department of Audit will perform another follow-up audit of purchasing card transactions sometime in 2003. Findings indicating continuing violations in 2003 may require disciplinary action against individual employees.



Jerome J. Heer
Director of Audits

JJH/cah

Attachment

cc: Finance and Audit Committee Members
Scott Walker, Milwaukee County Executive
Linda Seemeyer, Director, Department of Administration
Pinky Buford, Acting Purchasing Administrator, Department of Administration – Procurement Division
Rob Henken, Director of Research, County Board Staff
Lauri J. Henning, Committee Clerk, County Board Staff

STATUS OF IMPLEMENTING DEPARTMENT OF AUDIT REPORT RECOMMENDATIONS

Audit Title: **Follow-up Audit of Purchasing Card Controls**

Audit Date: **March 8, 2002**

File Number: **02-185**

Department: **Department of Administration (DOA) Procurement Division**

Number & Recommendation	Deadlines Established		Deadlines Achieved		Implementation Status		Comments
	Yes	No	Yes	No	Completed	Further Action Required	
1. <i>Revise the purchasing card policies and procedures to allow for limited delegation of purchasing card authorization. Require that both authorization forms be on file and properly approved by the respective department head or authorized designee before processing a new purchasing card request. Required authorization forms should be maintained by the Procurement Division.</i>	X		X				<p><i>Auditee:</i></p> <p>Revised Policy & Procedures, Authorization Memo, Employee Agreement and implemented the "Milwaukee County Purchasing Card Authorized Department Signer(s) form.</p> <p>Revised Policy & Procedures were mailed to all active cardholders and department card coordinators on April 24th.</p> <p>Effective September 3, 2002 the Purchasing Card Policies and Procedures with all the attachments is available on Milwaukee County's website.</p> <p><i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i></p>
2. <i>Emphasize with department card coordinators, through program training and/or informational materials, areas of responsibility so that all program participants understand the importance of the supervisory transaction approval. Further, the Purchasing Administrator take additional action deemed appropriate to enforce compliance with procedures.</i>	X			X	In process of scheduling training		<p><i>Auditee:</i></p> <p>Taking into consideration county-wide personnel turnover and the current budget process, a survey is being developed to ascertain departmental staffing updates.</p> <p>It is anticipated that the survey will be mailed by September 30, 2002 for return receipt no later than October 4, 2002. Training will be scheduled upon receipt of updated information.</p> <p><i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i></p>

Number & Recommendation	Deadlines Established		Deadlines Achieved		Implementation Status		Comments
	Yes	No	Yes	No	Completed	Further Action Required	
6. <i>The Purchasing Administrator take additional action deemed appropriate to enforce compliance with procedures.</i>	X		X				<i>Auditee:</i> See above item. <i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i>
7. <i>County departments assume a more proactive responsibility for monitoring purchasing card transactions made in their department so that unlawful purchases are not permitted and required controls are being followed. (The Department of Audit will forward copies of this audit report to County departments for corrective actions, where appropriate.)</i>	X		X				<i>Auditee:</i> Will continue to monitor, but it is the department's responsibility. <i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i>
8. <i>Incorporate the purchasing card transaction log form in the County's Administrative Manual as an official County form.</i>	X			X	In process		<i>Auditee:</i> Policy & Procedures and all forms will be added to the Administrative Manual as well as on the Procurement Division Web Site. <i>Dept. of Audit: Agree with the follow-up action stated by the auditee. However, transaction log and all other purchasing card policies and procedures need to be incorporated into the County's Administration Manual.</i>
9. <i>Place greater emphasis on the proper use of the form during purchasing card training sessions including specific direction to use the 'comments' section of the form to record the purpose of specific non-routine purchases.</i>	X						<i>Auditee:</i> Will continue to implement the proper use of the comments section - also in the Policy & Procedures, Section 4.6.3 gives step by step instructions how to fill out the Purchasing Log correctly. <i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i>

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10. Coordinate the efforts of the Procurement and DBD Divisions in developing a process to promote, track and report DBE participation when using the purchasing card.	X		X				<p><i>Auditee:</i></p> <p>A meeting was held with DBD and Supervisor Holloway to develop a plan of action to promote DBD participation.</p> <p>Track and Report - 1) Based upon a report provided by the bank, the office of DBD will cross reference, analyze and compile data to verify DBE status. On a quarterly basis, DBD will provide Procurement with DBE vendors and the corresponding dollar amount for each quarter. 2) Procurement will include those vendor and dollar amounts identified by DBD in the quarterly report to the Director of Administration. Tracking and reporting will be ongoing.</p> <p>Promote- The DBD Office will continue to work with Procurement in facilitating and promoting DBE participation. The DBD office provides a directory of certified DBE firms. The directory will be made available by the DBD office to all Department Card Coordinators.</p> <p>The Procurement Division took the initiative to develop and make available the most recent version of the DBE Certified Directory to Lotus Notes and County website users. Accelerated efforts continue in training sessions with cardholders on the necessity to include DBE vendors on purchasing card purchases.</p> <p><i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i></p>

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	Yes	No	Yes	No	Completed	Further Action Required	
11. <i>Work with DPW Fleet Division to bring card use into compliance with stated policies and procedures. If appropriate, consider other purchasing methods besides the card to meet Fleet's purchasing needs. In addition, the Purchasing Administrator should take additional action deemed appropriate to enforce compliance with procedures.</i>	X		X				<p><i>Auditee:</i></p> <p>Will continue to monitor, work with and enforce consequences if compliance is not followed.</p> <p><i>Dept. of Audit: Agree with the follow-up action stated by the auditee.</i></p>